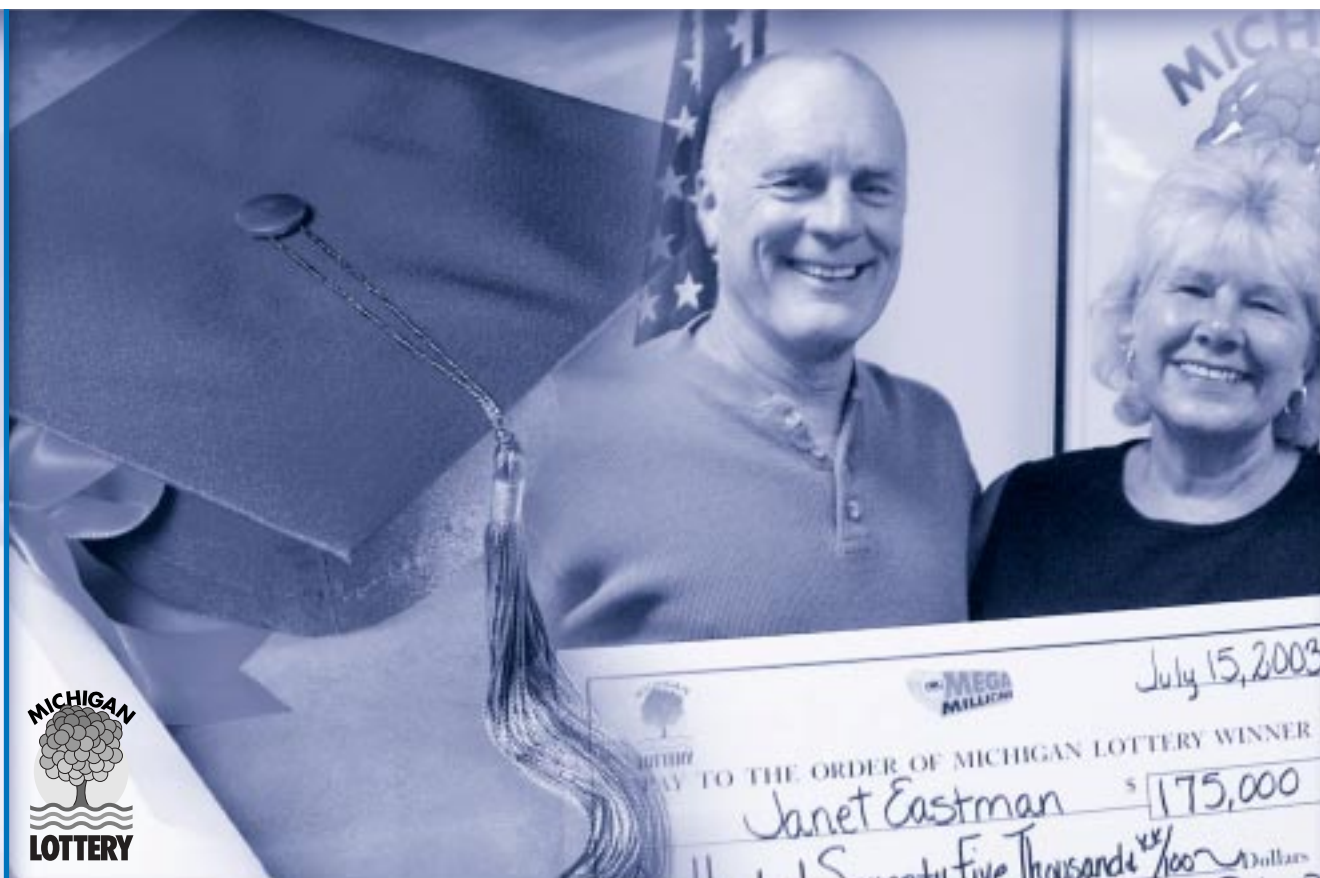


2003 ANNUAL REPORT Michigan Bureau of State Lottery



PRIZE-WINNING LEADERS

Message from the Governor and the Commissioner

Thirty-one years ago, the Michigan Lottery was created to generate funds to support Michigan's public school system. In 1972, the Lottery provided almost \$37 million for education. This year alone, Lottery contributions to the state School Aid Fund exceeded \$586 million!

When the Lottery was created, no one could have imagined the phenomenal success it has achieved, nor the record amounts of money it has raised to help educate our families. The increasing revenue the Lottery has generated over the past 31 years to support K-12 public education proves it has remained true to its number one commitment – Michigan's schoolchildren.

The staff of the Michigan Lottery is very proud of both their commitment to Michigan's schoolchildren and the more than \$586 million that was generated for the state School Aid Fund in fiscal year 2003. The money that the Lottery

than \$1.68 billion in ticket sales in fiscal year 2003, in turn, provided lucky Lottery winners with over \$919 million in prizes, and over \$121 million was paid out in commissions to the over 9,200 Michigan retailers who sell Lottery products.

While only a few lucky Lottery players will ever experience the thrill of becoming an instant multi-millionaire, the children of the Great Lake State hit the jackpot every year thanks to the Michigan Lottery. In its 31-year history, the Michigan Lottery has generated over \$11 billion to support public education in Michigan.

With a new fiscal year underway, the Lottery is facing ever-increasing competition in the gaming arena and other entertainment venues.

This competition is not viewed as an obstacle, but rather as a challenge to be met. Rest assured, the Michigan Lottery is deeply committed to doing whatever it takes to ensure that the maximum amount of revenue is raised for those who benefit most from Lottery ticket sales – Michigan's schoolchildren.



Gary C. Peters
LOTTERY COMMISSIONER



Jennifer M. Granholm
GOVERNOR



Gary C. Peters
LOTTERY
COMMISSIONER

generates each year saves every Michigan taxpayer hundreds of dollars and it provides a tangible benefit for K-12 public education programs statewide. It's hard not to get excited about Michigan Lottery products when you consider that every decision and action is motivated by such a worthy cause!

Each year, the Lottery finds new and innovative ways to attract more and more players, and that hard work is paying off for Lottery retailers and their customers. The more

MISSION STATEMENT

When Michigan's citizens voted by a 2-to-1 margin in 1972 to amend the state's constitution and create the Michigan Lottery, it was created with three goals in mind:

- 1 To maximize net revenues to supplement state education programs;
- 2 To provide fun and entertaining games of chance; and
- 3 To operate all games and Bureau functions with nothing less than total integrity.

YOU PLAY, SCHOOLS WIN

How many times have you heard someone say, "Where does the Lottery money go?"

When Commissioner Gary Peters took over the reins of the Michigan Lottery in April 2003 that was the question he found himself answering most often.

Actually, the answer to that question is very simple. Pursuant to Public Act 40 of 1981, every net dollar of Lottery revenue is transferred directly into the state School Aid Fund. This is a restricted state fund which means the dollars that go into it are specifically earmarked for K-12 public education funding in Michigan.

In FY 2003, Lottery dollars accounted for over \$586 million in public education funding. To date, Lottery net revenue has totaled more than \$11 billion in state School Aid funding.

While we are very proud of these statistics, we are not satisfied. As we make plans for the future of the Michigan Lottery, our mission has always been, and always will be, to bring in as much money as possible for the state School Aid Fund.

Every dollar the Lottery contributes toward public education funding is one less dollar taken from the taxpayers' pockets. With that in mind, it is clear that the Michigan Lottery has truly become a key part of the education funding equation!



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WINNING PRODUCTS & PROMOTIONS

The Lottery introduced two new on-line games in FY 2003 – Change Play and WINFALL, which replaced Michigan Millions.

CHANGE PLAY

Change Play was introduced in October 2002 and it allows players to use loose change from any purchase to buy a chance to win thousands of dollars. For any amount between 25 cents and 99 cents, players can buy Change Play tickets. Change Play sales totaled over \$4.3 million in FY 2003.



offered a buy one WINFALL ticket, get an "easy pick" free coupon. In August 2003, the Lottery offered the WINFALL Days of Thunder promotion in which players had the opportunity to win a 2003 Ford Thunderbird convertible in four different drawings.



WINFALL

WINFALL was introduced in January 2003, and it replaced the Michigan Millions game. WINFALL is a lot like the old player favorite – Michigan Lotto. Like Michigan Lotto, to play WINFALL, players select six numbers from a field of 49. Also like Lotto, the match five prize in WINFALL is \$2,500 and the match four prize is \$100, and both of these prizes are guaranteed amounts. But, WINFALL offers even more. There is a \$5 cash prize for



matching just three numbers too. And, when WINFALL jackpots reach \$5 million and no one matches all six winning numbers for that drawing, all of the prize money, including the cash accumulated in the jackpot, is paid out to the match five, match four and match three winners in that drawing, increasing each of those lower-level prizes by approximately 10 times! WINFALL tickets are just \$1 per wager and drawings are held every Wednesday and Saturday. WINFALL has quickly become a big hit with players, as sales for the game have exceeded Michigan Millions sales from the prior year by over 10 percent, at over \$79.5 million for the year.

In FY 2003, the Lottery conducted two different bonus promotions attached to the WINFALL game. In February 2003, the Lottery

DAILY 3&4

Among the online games, the Daily 3 and Daily 4 games are not only the oldest, but also the most popular games in the Lottery's lineup. This year, the Daily segment comprised more than 42 percent of total sales at just over \$711 million! Players pick three (Daily 3) and four (Daily 4) numbers from 0 to 9 for a chance to win set prizes up to \$500 and \$5,000, respectively. Drawings are conducted twice a day, seven days a week. In

FY 2003, the Lottery conducted two different bonus promotions attached to the Daily 3 & 4 games. In



April 2003, the Lottery offered "Red Ball Double Draw" in which another drawing was conducted using a separate machine that contained five white balls and one red ball.

When the red ball was selected, the Lottery drew a second set of Daily 3 numbers, giving players a second chance to win on the same ticket. In September 2003, the Lottery offered the Daily 4 "Front Pair Payout" in which players whose straight bets matched the first two numbers drawn received a \$10 payout.



MEGA MILLIONS

The multistate Mega Millions game has been a player favorite since its introduction in 1996 as The Big Game. Mega Millions players choose five numbers from a pool of 52 white ball numbers and one number from a different pool of 52 gold ball numbers. Players who match all five numbers and the Gold Mega Ball number win the Mega Millions jackpot. There are eight other ways to win with Mega Millions, with cash prizes ranging from \$2 to \$175,000. Mega Millions jackpots start at \$10 million, the tickets cost just \$1 per wager and drawings are held every Tuesday and Friday. Mega Millions sales totaled \$148 million in FY 2003. In May 2003, the Lottery offered a promotion attached to the Mega



Millions game in which players could get one free “easy pick” ticket with each five Mega Millions wagers they purchased.

MICHIGAN ROLLDOWN

Michigan Rolldown is a unique offering in the Lottery’s lineup, as it offers pari-mutuel prizes for the match five, match four and match three prize levels, plus a \$1 fixed prize for matching just two numbers. Michigan Rolldown players choose five numbers from a field of 33. Drawings for Michigan Rolldown are conducted seven days a week. The Lottery selects five

winning numbers in each drawing and anyone matching those five numbers wins that jackpot. If no one matches all five numbers in a drawing, the jackpot “rolls down” to award even bigger cash prizes to those matching four numbers. All

of the prize money is awarded each and every night. In December 2002 and March 2003, the



Lottery offered a buy one Michigan Rolldown ticket, get an “easy pick” free coupon. Michigan Rolldown sales totaled nearly \$34 million in FY 2003.

KENO!

The Lottery’s Keno! game has been a steady performer since its debut in 1990. Players select 10 numbers from a pool of 80. The Lottery then draws 22 numbers and if the player matches 10 of 22 numbers they win the \$250,000 guaranteed top prize. Keno! drawings are conducted seven days a week. Keno! sales totaled over \$13 million in FY 2003, a whopping 30.5 percent increase over FY 2002.



INSTANT GAMES CONTINUE TO GROW

What is easily the Lottery's fastest-growing product segment, instant tickets continued to dazzle players in FY 2003.

Instant ticket sales this past fiscal year exceeded \$683 million (an over four percent increase over last year), while players uncovered more than \$428 million in prizes, an almost four percent jump over last year!

The Lottery introduced 71 glittering new instant games during this past fiscal year. With cash prizes as high as \$2,000,000, and a variety of merchandise prizes to fit every player's taste, the Michigan Lottery's instant games enjoyed one of their most successful years ever.

Player excitement rose to a new level when, for the first time, the Lottery awarded \$2,000,000 top prizes in two different \$20 instant games during live drawings. In January 2003, the first drawing of this kind was conducted in Lansing for the "\$2,000,000 Celebration" instant game. A lucky man from Plainwell was the winner of that prize. The second live

**INSTANT
GAMES**



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grand-prize drawing was held in June 2003 for the "\$2,000,000 Blast" instant game during a Detroit Tigers baseball game at Comerica Park in Detroit. Brian Lutze of Bay City was the lucky winner of that \$2,000,000 grand prize.

Merchandise prizes were also a big player favorite in FY 2003. Games like "Harley-Davidson®" and "Wheel of Fortune®" awarded players with motorcycles, great merchandise prize packs and trips to Hollywood to audition for the Wheel of Fortune television game show.



Additionally, two times during the past fiscal year, the Lottery inserted discount coupons in major home-delivered newspapers across the state offering a free \$2 instant ticket with the purchase of any \$5 instant ticket.

The Lottery offers an instant game for every player, with price points ranging from \$1 to \$20 and a variety of play styles. There are no signs of this all-important category slowing down, indicating that instant games are clearly "just the ticket" for many players!

PLAYERS KEEP ON WINNING BIG

With over \$919 million in prizes awarded in the past fiscal year – no matter how you add it up, FY 2003 was a very good year for players!

No matter how large or small the prize, there is definitely something special about handing over a check to a grateful prize winner. In the short time Commissioner Peters has been at the helm of the Lottery, he has already awarded millions of dollars to lucky winners, and it seems that he always ends up feeling like the lucky one for having the opportunity to change a player's life in an instant!

As is the case every year, FY 2003 was a big year for prize winners at the Michigan Lottery. The new WINFALL game pays out great cash prizes regardless of whether or not there is



a jackpot winner. This exciting new game produced three jackpot winners and 233 winners of expanded

match five prizes from instances where the jackpot was not won and the money rolled down to the lower prize levels.



While Mega Millions did not produce any new Michigan jackpot winners in FY 2003, it did generate a whopping 59 winners of the \$175,000 second-tier prize. Many of those tickets were purchased by lottery clubs. Over the past few years, lottery clubs – in which members pool their money and share prizes – have grown in popularity among Michigan Lottery players, especially when the jackpot soars above \$100 million.

The Lottery's fastest-growing product – instant games – returned more than \$428 million in prizes to players. Michigan Rolldown continued to be a solid prize provider in FY 2003, awarding \$16.8 million in prizes to lucky winners. Increased Keno! sales this past year generated nine \$250,000 top-prize winners and a total of over \$7.2 million in Keno! prizes awarded to winners. And, last but definitely not least, the Daily 3 and 4 games boasted a return of over \$343 million in prizes to players in FY 2003.

The great prizes the Michigan Lottery offers keep players coming back for more each year and justifiably so. It is a funny thing about Michigan Lottery prizes. Our winners feel very fortunate to receive them, but we feel even more fortunate to share in their winning experience by awarding them the prizes!



A WINNING PARTNERSHIP

Our relationship with retailers and vendors

Can you count how many times in a day you drive by a store and notice the familiar Michigan Lottery “money tree” logo? Believe it or not, there are over 9,200 licensed Lottery retailers statewide and every one of them is an extension of the Lottery itself.



The Lottery's partnership with Michigan retailers is an important part of the secret to our success. Lottery retailers take the time to get to know our products inside and out, answer player questions and do their very best to inform customers about game changes, promotions and growing jackpots. Our relationship with retailers is one we value and one we work on strengthening every day.

Retailers' sales efforts in FY 2003 resulted in over \$121 million in commissions. Lottery retailers earn a six percent commission on all Michigan Lottery tickets sold; two percent of in-store redemptions on winning tickets valued up to \$600; two percent bonus commission on redeemed winning tickets sold in their stores valued from \$601 to \$100,000; and a flat \$2,000 bonus commission for redeemed winning tickets valued over \$100,000 sold in their stores.

Michigan Lottery retailers also participate in an incentive-based commission program that rewards those who meet or exceed their quarterly instant ticket sales goal with an additional commission based upon their total instant ticket sales for the



quarter. The incentive-based commission program is definitely working with retailers.

On average, each quarter, 55 percent of the Lottery's retailers have earned an incentive commission award.

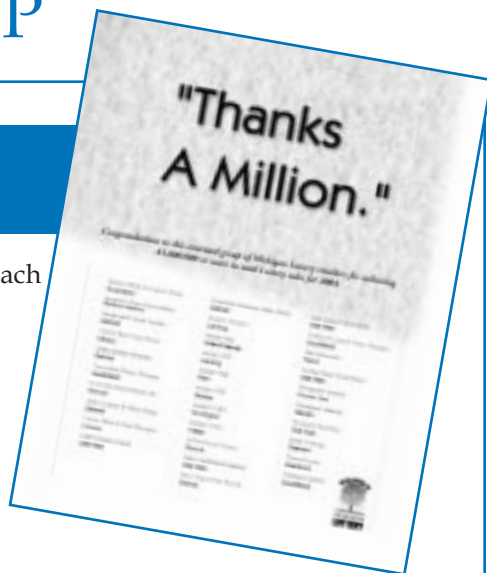
While the relationship between the Lottery and its retailers is fairly obvious and well understood by the public, most people don't think about the economic benefits the Lottery brings to the state's many communities. We regularly receive publicity regarding our winners, but that is not the only story worth mentioning.

In order to operate as efficiently as possible and provide a profitable product to our over 9,200 retailer locations, much work must be done and done right! The Michigan Lottery partners with two of the biggest names in the lottery industry – GTECH and Pollard Banknote.

These companies produce the Lottery's on-line and instant tickets, respectively, and provide terminal maintenance to our statewide retailer network. These two companies together employ approximately 200 Michigan residents, who, in turn, purchase millions of dollars in Michigan goods and services annually.

In addition to our retailers and vendors, we can't forget the buying power of Michigan Lottery winners, which is also a considerable factor in the state's economy. Winners invest their millions of dollars in winnings back into Michigan, spreading the wealth among their families and making dream purchases.

Year after year, the Michigan Lottery continues to be a smart bet for state business!



STATEMENT OF REVENUES, EXPENSES AND TRANSFERS

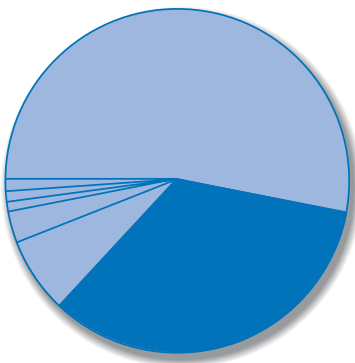
<i>(in thousands)</i>	2002-2003	2001-2002
REVENUES		
Daily 3	\$ 418,589	\$ 411,203
Daily 4	293,088	283,548
Daily 3 EXTRA	4,749	7,059
Daily 4 EXTRA	4,067	5,604
WINFALL/Michigan Millions	79,289	71,668
Michigan Rolldown	33,747	37,254
Mega Millions/ Big Game	147,534	205,983
Keno!	13,471	10,324
Instant Tickets	682,703	655,415
Change Play	4,311	-
Total Ticket Sales	\$ 1,681,548	\$ 1,688,058
Charitable Gaming Receipts	\$ 19,155	\$ 19,637
Investment Income	3,315	(3,554)
Unrealized Investment Income (loss)	(22,884)	24,496
Other Income	1,127	22,243
Total Revenues	\$ 1,682,261	\$ 1,750,880
EXPENSES		
Retailer Commissions	\$ 121,830	\$ 120,745
Administrative Expenses	15,280	15,340
Advertising	17,122	17,097
Game-Related Expenses	45,066	44,090
Charitable Gaming Expenses	7,922	7,571
Total Operating Expenses	\$ 207,220	\$ 204,843
PRIZES AWARDED	\$ 919,222	\$ 918,105
Less Unclaimed Prizes	19,568	23,150
Net Prizes Awarded	\$ 899,654	\$ 894,955
NET INCOME	\$ 575,387	\$ 651,082
Charitable Gaming Net Income		
Transferred to General Fund	\$ 11,233	\$ 12,066
Transfer to Dept. of Community Health		
For Gambling Addiction Programs	990	990
Reserved Unrealized Gain (loss) on Investments	(22,884)	24,496
NET INCOME TRANSFERRED TO SCHOOL AID FUND	\$ 586,048	\$ 613,530



PROFITS & PUBLIC EDUCATION FUNDING

Distribution of revenues actual 2003 Lottery sales and other income \$1.682 billion

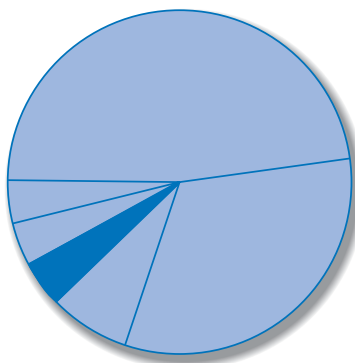
Percentages are based on total Lottery sales and other income, plus \$22.9 million unrealized investment loss.



- Net Revenue to Education: 34%
- Prizes: 53%
- Commission to Retailers: 7%
- Game-Related Expenses: 3%
- Advertising: 1%
- Administration: 1%
- Other Transfers and Expenses: 1%

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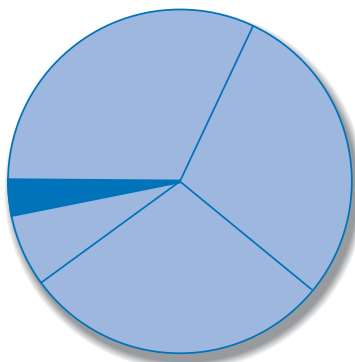
Sources of school aid 2003 estimated budget \$11.55 billion*



- Lottery: 5%
- Sales and Use Taxes: 44%
- Earmarked Income Tax and State Education Property Tax: 30%
- Other Taxes: 7%
- Cigarette and Liquor Taxes: 3%
- Federal Funds and Other Sources: 11%

(Note: Federal Grant programs were transferred from the Department of Education to the school aid budget in FY 03.)

Sources of school operating revenue 2003 estimated budget \$17.3 billion*

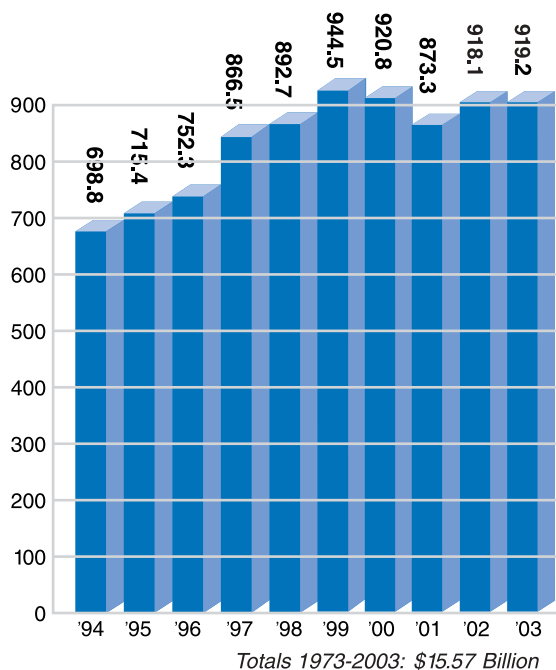


- Lottery: 3%
- Sales and Use Taxes: 30%
- General Fund and Other State Sources: 29%
- Local Source Revenues: 31%
- Federal Funds: 7%

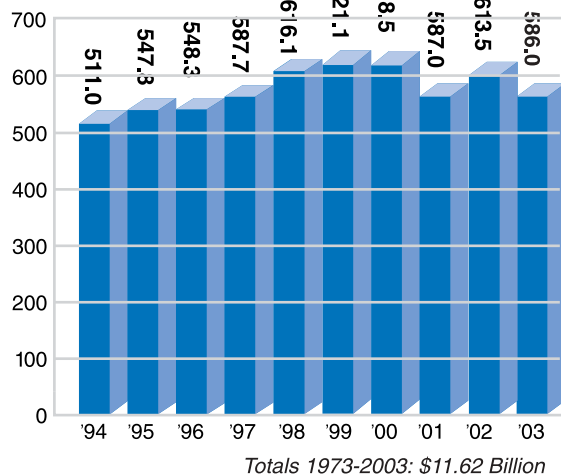
* House Fiscal Agency Estimate

HISTORY OF REVENUES

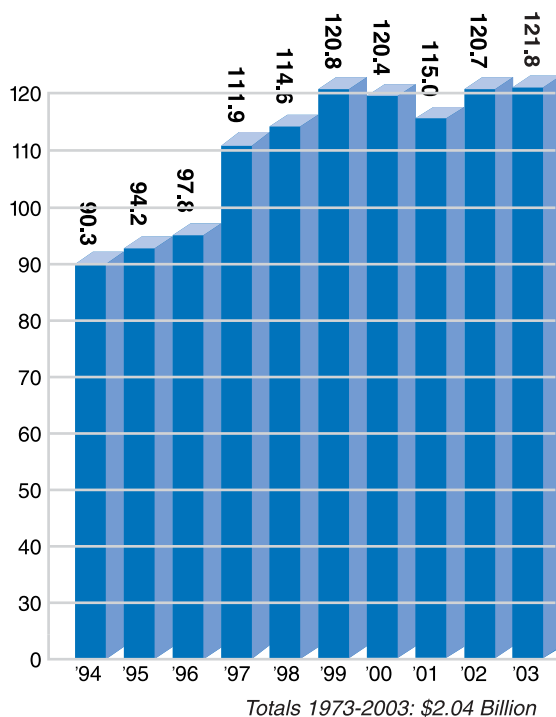
Prizes Won by Fiscal Year*



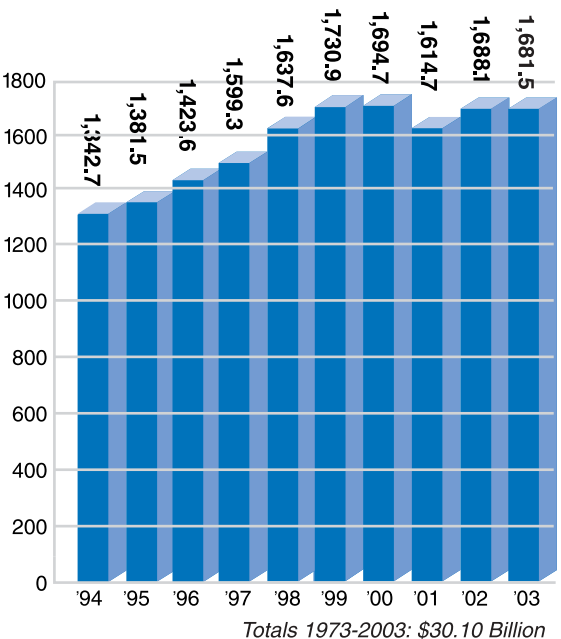
Net Revenues to Education by Fiscal Year*



Retailer Commissions by Fiscal Year*



Ticket Sales by Fiscal Year*



* Reported in Millions



Compulsive Gambling

Lottery and other games of chance are prevalent in Michigan and worldwide. In Michigan at least 75 percent of our adult residents have purchased a Lottery ticket in the last 12 months.

Fortunately, the vast majority of these Lottery enthusiasts have played responsibly and done so in the spirit the games are intended. However, as with any form of gambling, abuses can and do occur.

At the Michigan Lottery, we believe in offering a fun product at a fair price, all in the name of benefiting a worthy cause. The Lottery is entertaining, it's a game of chance and it's fun. The Lottery is not, and was never intended to be, a stepping stone to success. It's not a good

investment, not a retirement plan and was certainly never meant to replace hard work and ambition as a means to a better life.

Because the Lottery understands there are those who may need support in understanding the difference, answers are available. Compulsive gambling can be treated, and help is just a phone call away.

If you would like more information about problem gambling and the programs available, call the Michigan Problem Gambling Helpline at 1-800-270-7117.

In FY 2003, the Michigan Lottery provided \$1 million for compulsive gambling programs including the toll-free Helpline.

Regional Offices

BRIDGEPORT
6326 Bridgeport Village
Square Drive
Bridgeport, MI 48722
989-777-7140

DETROIT
Cadillac Place
3060 W. Grand Blvd.
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Detroit, MI 48202
313-456-4040

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P.O. Box 30023
Lansing, MI 48909
517-335-5600

DEARBORN HEIGHTS
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Cambridge Center
Dearborn Heights, MI 48127
313-565-0219

STERLING HEIGHTS
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